# United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510–6000
202–224–2035
TTY/TDD 202–224–2587



March 19, 2001

Honorable Pete V. Domenici
Chairman
Honorable Kent Conrad
Ranking Minority Member
Committee on the Budget
Washington, DC 20510

Dear Mr. Chairman and Senator Conrad:

This letter provides the views of the Senate Committee on Agriculture, Nutrition, and Forestry regarding the FY 2002 Budget Resolution. These views are provided in response to your February 23, 2001 letter and are in accordance with requirements of the Congressional Budget Act.

Farmers and ranchers know that agriculture is a cyclical business and that farm prices can be subject to large swings, but the past three years have been particularly difficult for many sectors of agriculture. Low commodity prices and regional weather problems over this period have presented serious economic challenges for farmers and ranchers. The farm programs of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 and supplemental farm assistance from the Congress have provided farmers with increasingly larger amounts of federal assistance for the last three years. Though farmers' returns from the marketplace have fallen sharply during this period, government assistance has helped keep farm financial conditions relatively stable and many farmers in business.

Looking ahead, last year's major legislation to improve the federal crop insurance program, the Agricultural Risk Protection Act of 2000, will significantly reduce the cost to farmers of individualized yield and revenue loss protection beginning with the 2001 crops. Farmers and ranchers will benefit from the additional risk management support this legislation provides. However, an improved insurance program alone does not constitute an adequate farm safety net. The Agriculture Department currently projects that 2001 U.S. net farm income will fall to $41.3 billion, a $4.1 billion or 9 percent drop from last year's level. Though the national farm income projection is important, this early projection is uncertain and may mask conditions in individual commodity markets and regions of the country. We will closely monitor these conditions as the year goes forward.

Over the past three years, the Congress has provided nearly $25 billion in additional agricultural spending. A broad spectrum of agricultural and commodity groups have expressed their view that additional funding be allocated to the Agriculture Committee to meet the needs of U.S. agriculture, both short and long-term. We are hopeful that the Budget Committee will provide the Agriculture Committee with the necessary flexibility to craft needed policy changes within the jurisdiction of the Agriculture Committee.

Sometime over the next two years, the Agriculture Committee will complete its work on a new farm bill. As you know, the Congressional Budget Office's (CBO) mandatory farm spending baseline assumes that FAIR Act programs will be continued in 2003 and beyond without change. The baseline does not assume new supplemental farm assistance for future crop years. In addition, the baseline assumes normal weather and a gradual improvement in market prices for major crops over the next ten years. As a result, CBO's farm spending baseline for fiscal year 2002 and later is below the actual spending of the last several years (see Table 1 after page 4). We understand this is a current law baseline. Nonetheless, projected mandatory farm and conservation spending under a continuation of the FAIR Act is not inconsequential. CBO's baseline projects that spending for Commodity Credit Corporation (CCC) and crop insurance programs will average a combined $13.1 billion over the ten-year 2002-2011 period. Such spending is $3.6 billion lower than what actual spending has averaged for these programs over the last five years (1996-2000).

There is another issue related to the baseline that we would like to raise. CBO's baseline projection of Commodity Credit Corporation (CCC) farm support programs is based on what economists call a "deterministic" estimating methodology. This means that spending is projected based on a specific set of annual farm price, supply, and demand estimates for the major supported crops. We all know, however, that crop prices are volatile because these markets are subject to a wide variety of shocks such as the impact of weather on crop yields or unanticipated changes in market demand. A deterministic baseline, by its very nature, does not account for the volatility of these markets. For this reason, CBO's deterministic baseline probably understates farm spending (and thus necessary farm support) that is likely to occur under a continuation of the FAIR Act. CBO six years ago began probability-based scoring of legislative options to change the marketing assistance loan program. CBO has not extended the probability-based methodology to the marketing assistance loan program within its current law CCC farm support baseline. It seems inconsistent to have two different methods utilized by CBO. Food and Agricultural Policy Research Institute (FAPRI) economists will provide new analyses to help evaluate these issues at an Agriculture Committee briefing on Monday, March 26. We encourage your staff to attend this briefing.

In addition, the Committee strongly supports voluntary, incentive-based conservation programs. All agricultural producers, including livestock owners, specialty crop growers and those who produce row crops face mounting environmental and conservation challenges from federal, state and local agencies and the general public. Unfortunately, funding for agricultural conservation programs falls significantly short of the ever-increasing needs for these funds. Moreover, many producers, including those who already implement environmentally-beneficial and conservation practices, are excluded from these programs. Agricultural producers wish to continue their long history of being good stewards of our nation's natural resources, and USDA conservation programs can provide the financial and technical assistance necessary to allow them to succeed. Because of the high demand and limited funding for conservation programs, many agricultural and environmental organizations have requested additional funding for existing and new conservation initiatives to protect the environment, wildlife, and natural resources.

The Committee continues to strongly support agricultural research. Enactment of the Agricultural Research, Extension, and Education Act in 1998 provided $120 million in new annual mandatory funding for competitive agricultural research grants. The Committee is hopeful that funding for fiscal year 2002 and beyond will remain intact throughout the budget and appropriations process. We were pleased that last fall USDA awarded about $113 million for 86 competitive agricultural research grants. USDA is now in the process of soliciting proposals for funding to be awarded yet this fiscal year. It is imperative that this funding be available to address critical emerging agricultural issues related to future food production, environmental quality, natural resource management, and farm income. We need to invest in agricultural research now, in order for U.S. producers to be able to improve profitability, increase productivity to meet future food and fiber demands of a growing world population, develop new markets and new uses, and protect the environment.

Rural America has considerable infrastructure needs that are not being met. The costs of sewer, water and power are considerably higher in rural areas. Federal mandates often disproportionately add to those costs. Insufficient capital, particularly venture capital, creates serious obstacles for rural economic development, especially for value-added agricultural efforts. We ask that your Committee keep in mind these needs of rural America.

The Committee recognizes the importance of foreign markets in enhancing U.S. agricultural profitability. We must pursue enforcement of existing trade agreements and the negotiation of new trade agreements which will open new markets to U.S. agricultural exports by eliminating or greatly reducing existing barriers and trade-distorting agricultural subsidies around the world. Legislation restoring authority for negotiating and submitting trade agreements to the Congress should be a priority. The Committee expects to review agricultural trade programs under its jurisdiction.

Changes in tax laws can help farmers manage their finances in times of volatile markets and fluctuating income. Tax law should not interfere with farmers' ability to pass on family farming operations to sons, daughters, or other family members. The Committee supports estate tax relief and other reasonable tax changes beneficial to farmers and other small business owners. Specifically, we believe strengthening tax incentives for ethanol, bio-diesel and other renewables and enactment of the Good Samaritan Hunger Relief Act would be very helpful.

We have been, and continue to be, strong supporters of federal nutrition programs. The Committee will continue to examine such changes to nutrition programs as may be needed to respond to nutrition and hunger challenges.

Because of the importance of addressing energy needs for the long term, we also support substantially increasing our funding of competitive research on renewable sources of fuel. Doing so will reduce our dependence on foreign sources of oil and help provide markets for our farmers' agricultural products and byproducts.

As your Committee considers the aggregate discretionary spending levels in the FY2002 budget resolution, we ask you to keep in mind the several important items that are funded in the agricultural appropriations bill. These include rural economic development, competitive grants for agricultural research and biomass and renewable energy research and development and protecting the safety of our Nation's food supply. The Committee supports USDA efforts related to bio-terrorism and is acutely aware of the need for expedited animal disease research (including substantial improvements in our facilities), which many experts view as a true emergency. The Committee will continue to review and monitor spending in both the farm and food and nutrition areas.

Sincerely,

Richard G. Lugar

Tom Harkin

Richard G. Lugar
Chairman

Tom Harkin
Ranking Minority Member

TABLE 1. Mandatory Commodity Credit Corporation (CCC) and Federal Crop Insurance Program Outlays
CBO January 2001 Baseline Projections for Fiscal Year 2001 and Subsequent Years (Outlays by fiscal year in billions of dollars)

| | Actual | | | | | Projection | | | | | | | | | | | Annual Average | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 1996-00 | 2002-11 |
| AMTA Payments 1/ | 5.14 | 6.32 | 5.67 | 5.48 | 5.06 | 4.06 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 3.94 | 5.53 | 3.94 |
| Loan Deficiency Payments 1/ | 0 | 0 | 0.48 | 3.36 | 6.42 | 5.48 | 3.86 | 3.23 | 3.18 | 2.86 | 2.34 | 1.06 | 0.18 | 0.16 | 0.15 | 0.10 | 2.06 | 1.71 |
| Marketing Loan Gains 1/ | 0 | 0 | 0.16 | 0.99 | 1.69 | 1.22 | 0.89 | 0.77 | 0.79 | 0.72 | 0.62 | 0.36 | 0.21 | 0.19 | 0.17 | 0.15 | 0.59 | 0.49 |
| Market Loss Payments 2/ | 0 | 0 | 0 | 3.06 | 11.52 | 1.24 | 0.02 | | | | | | | | | | 2.92 | 0.00 |
| Disaster Payments 2/ | 0 | 0 | 0 | 2.52 | 1.59 | 2.25 | 0.09 | | | | | | | | | | 0.82 | 0.01 |
| Other Farm Support 3/ | 0.13 | (0.82) | 1.96 | 2.14 | 4.09 | 3.05 | 1.44 | 1.29 | 1.26 | 1.30 | 1.11 | 1.06 | 0.99 | 1.00 | 0.94 | 0.93 | 1.50 | 1.13 |
| CCC Farm Support, Subtotal | 5.27 | 5.50 | 8.27 | 17.55 | 30.50 | 17.29 | 10.23 | 9.23 | 9.17 | 8.81 | 8.00 | 6.41 | 5.33 | 5.29 | 5.20 | 5.11 | 13.42 | 7.28 |
| CCC Conservation 4/ | 1.85 | 1.78 | 1.89 | 1.76 | 1.77 | 2.00 | 2.04 | 1.91 | 1.91 | 1.93 | 1.95 | 1.97 | 2.03 | 2.50 | 2.63 | 2.69 | 1.81 | 2.16 |
| CCC Other | (0.63) | (0.02) | (0.01) | (0.08) | (0.01) | (0.03) | 0.00 | 0.01 | (0.01) | (0.02) | (0.04) | (0.05) | (0.04) | 0.08 | 0.19 | 0.20 | (0.15) | 0.03 |
| CCC Total 4/ | 6.49 | 7.26 | 10.14 | 19.22 | 32.27 | 19.26 | 12.27 | 11.15 | 11.07 | 10.72 | 9.92 | 8.33 | 7.31 | 7.87 | 8.01 | 8.00 | 15.08 | 9.46 |
| Federal Crop Insurance | 1.76 | 0.97 | 1.03 | 1.68 | 2.28 | 2.49 | 3.20 | 3.27 | 3.38 | 3.47 | 3.59 | 3.73 | 3.80 | 3.66 | 3.92 | 3.97 | 1.54 | 3.60 |
| CCC and Crop Insurance Total | 8.25 | 8.23 | 11.17 | 20.90 | 34.54 | 21.75 | 15.47 | 14.41 | 14.45 | 14.18 | 13.51 | 12.06 | 11.11 | 11.53 | 11.93 | 11.97 | 16.62 | 13.06 |

Note: Totals may not always add due to rounding.

1. These are Federal Agriculture Improvement and Reform (FAIR) Act AMTA payment and marketing assistance loan programs.

2. This is non-FAIR Act supplemental farm assistance spending. Two separate $5.5 billion AMTA-based market loss payments, one each for the 1999 and 2000 crops were provided in fiscal year 2000.

3. This category consists of other FAIR Act CCC commodity programs for dairy, sugar , peanuts, tobacco and certain export programs. It also includes non-FAIR Act supplemental farm assistance spending for various purposes, primarily in fiscal years 2000 and 2001.

4. Commodity Credit Corporation outlays in fiscal year 1996 were actually only $4.646 billion but that total does not include spending of $1.848 billion that year for mandatory conservation programs such as the Conservation Reserve Program which were made part of the CCC budget account beginning in fiscal year 1997. To display spending for the same set of programs for all years, CCC outlays shown above for fiscal year 1996 has been adjusted to include non-CCC mandatory spending for these conservation programs that occurred that fiscal year.